



THRIFT SAVINGS PLAN FACT SHEET

Important Information Regarding Transfers From the Thrift Savings Plan to Eligible Retirement Plans

The purpose of this fact sheet is to provide information about the Thrift Savings Plan (TSP) to eligible retirement plans. A plan administrator (or trustee or custodian) may rely on the information contained in this Fact Sheet to complete the transfer of a TSP participant's account.

1. What is the TSP and how was it established?

The Federal Employees' Retirement System Act of 1986, Public Law 99-335 (FERSA), established the TSP, which is administered by the Federal Retirement Thrift Investment Board (Board), an independent Federal agency. FERSA has been codified primarily in subchapter 84 of Title 5, United States Code. The TSP is a defined contribution, cash or deferred arrangement (CODA), similar to CODAs described in § 401(k) of the Internal Revenue Code (Code).

2. How is the TSP treated under the Internal Revenue Code (I.R.C.)?

The Code, in I.R.C. § 7701(j), states that the TSP is to be treated as a trust described in I.R.C. § 401(a) which is exempt from taxation under I.R.C. § 501(a). (See also 5 U.S.C. § 8440.) Thus, our "determination letter" is statutory in nature, and the TSP is a qualified trust.

3. Is the TSP subject to all of the rules applicable to a qualified trust?

No. The TSP is a Government plan, as defined in § 414(d) of the Code. Thus, it is not subject to the joint and survivor annuity rules found in sections 401(a)(11) and (17) of the Code. (See the last sentence of I.R.C. § 401(a).) Nor is the TSP subject to the "top heavy plan" provisions of § 416 of the Code. (See I.R.C. § 401(a)(10)(B)(iii).)

4. Are all participants covered?

Yes. A civilian participant in the TSP is covered under either the Federal Employees' Retirement System (FERS) or the Civil Service Retirement System (CSRS).¹

On October 30, 2000, President Clinton signed the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 (Public Law 106-398). One provision of the law extended participation in the TSP to members of the uniformed services.²

5. How are contributions made to a FERS participant's TSP account?

A FERS employee, while employed by the Federal Government, can elect to contribute to the TSP up to a designated percent³ of his or her

¹ FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans. CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent Government retirement plans.

² Uniformed members of the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration serving on active duty and members of the Ready Reserve or National Guard of those services (as applicable) in any pay status may contribute to the TSP.

³ As of January 2002, employee contribution limits for FERS and CSRS employees were 12% and 7% respectively. The limits will rise by one percent each January until 2006, when they will be eliminated altogether. The elective deferral limit established annually by the IRS (\$11,000 for 2002) will remain in effect.

basic pay per pay period, on a pre-tax basis. Under FERSA, FERS employees receive agency automatic contributions (1 percent of basic pay per pay period) regardless of whether the FERS employee contributes to the plan. The employing agency will match the first 3 percent of basic pay contributed by a FERS employee per pay period on a dollar-for-dollar basis; the next 2 percent of basic pay contributed per pay period is matched on a 50-cents-per-dollar basis. Thus, a FERS employee who elects to contribute as much as 5 percent of basic pay per pay period will receive a total employer contribution of 5 percent of basic pay. (See 5 U.S.C. § 8432(a),(c).)

6. How are contributions made to a CSRS participant's account?

A CSRS employee can elect to contribute to the TSP up to a designated percent³ of his or her basic pay per pay period. (See 5 U.S.C. § 8351.) A CSRS employee is not eligible to receive agency automatic or agency matching contributions.

7. How are contributions made to a uniformed services participant's account?

- A uniformed services participant can elect to contribute up to the same limit on basic pay each pay period as a CSRS participant. (See footnote 3.)
- A uniformed services participant who contributes to the TSP from basic pay may also contribute from one to 100 percent of any incentive or special pay, including bonus pay.
- The total amount of a uniformed services participant's contributions is limited by the elective deferral limit established annually by the IRS (\$11,000 for 2002).

The law that extended the TSP to the uniformed services allows the secretary responsible for each service to designate critical specialties for matching contributions. Members serving in these specialties who agree to serve on active duty for 6 years would be eligible for matching contributions. The matching contributions would apply only to amounts contributed from basic pay. At this time, the service secretaries have not authorized matching contributions for uniformed services members.

8. Can there be any after-tax or non-taxable funds in a participant's account?

TSP participants may not contribute after-tax funds to their accounts. However, members of the uniformed services may contribute combat zone pay to their accounts. Combat zone pay is exempt from Federal income taxes; therefore, TSP contributions from combat zone pay are also exempt from Federal income taxes when they are subsequently distributed from uniformed services TSP accounts. (This is not true for the earnings attributable to contributions from combat zone pay; all earnings are taxable when they are distributed from a TSP account.)

The TSP will make all payments from a uniformed services account on a *pro rata* basis from both taxable and tax-exempt balances. A payment made from a uniformed services TSP account will therefore include taxable and tax-exempt balances if the account includes contributions from combat zone pay.

If a uniformed services participant wants to transfer an eligible rollover distribution to a traditional IRA or eligible employer plan and the IRA or plan does not accept tax-exempt balances, the tax-exempt portion of the intended transfer will be removed from the amount that is being transferred and will be paid directly to the uniformed services participant.

9. Can a distribution from the account of a TSP participant be an "eligible rollover distribution"?

A distribution from the account of a TSP participant can be an "eligible rollover distribution" if it meets the definition found in § 402(c)(4) of the Code. The following TSP distributions are eligible rollover distributions:

- Payment of the entire account in a single payment
- All automatic cashouts, i.e., payments of accounts that are \$3,500 or less
- Equal monthly payments when the account is expected to be paid out in less than 10 years. (This does not apply if payments are computed by the TSP using the IRS life expectancy table.)

- A final single payment made after a series of equal payments
- Amounts paid to a participant after the complete withdrawal of a TSP account (e.g., a late contribution to a participant's account)
- An age-based in-service withdrawal
- Death benefits paid to the spouse of a deceased participant
- Amounts paid to a current or former spouse under a qualifying court order or legal process

10. Is the TSP authorized to make transfers to eligible retirement plans?

Yes. Participants may transfer money from their TSP accounts to an eligible retirement plan (as defined in I.R.C. § 402(c)(8)). *See* 5 U.S.C. § 8433(c)(2). An eligible retirement plan can be either a traditional IRA or an eligible employer plan.⁴ Section 8433(c)(1) of Title 5 requires the Executive Director of the TSP to make such transfers “directly” to any eligible retirement plan described in § 402(c)(8). The TSP will issue IRS Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., to the participant and the IRS regarding the transfer. (*See* Treas. Reg. § 31.3405(c) – 1, 2, Q and A–16.)

11. How is a transfer made?

In order to make a transfer, a participant must submit Form TSP-70-T, Transfer Information, or Form TSP-75-T, Transfer of an Age-Based In-Service Withdrawal. If any other form is used, the TSP account balance will not be transferred.

Accounts in the TSP are valued once a month as of the last day of the month. Transfers are made once a month, in the early part of the month, by the issuance of a U.S. Treasury check to the transferee plan or IRA. The Employer Identification Number of the TSP is 52-1529691.

⁴ A “traditional IRA” is an individual retirement account described in § 408(a) of the Internal Revenue Code (I.R.C.) or an individual retirement annuity described in I.R.C. § 408(b). It does not include a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA). An “eligible employer plan” includes a plan qualified under I.R.C. § 401(a), including a § 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; an I.R.C. § 403(a) annuity plan; an I.R.C. § 403(b) tax-sheltered annuity; and an eligible I.R.C. § 457(b) plan maintained by a governmental employer.

The actual date of a prospective distribution depends upon when properly completed withdrawal or transfer forms are received by the TSP.

12. Does the amount transferred include excess deferrals?

No. Excess deferrals are not allowed in the TSP. In the event that a participant exceeds his or her § 402(g)(1) or § 415(c) annual limit, such excess amounts are distributed to the affected participant in the appropriate correction year.

13. Does the distribution contain “Qualified Voluntary Employee Contributions” (QVECs) or “Deductible Employee Contributions” (DECs)?

No. The TSP distribution does not include either QVECs or DECs. (These types of contributions were allowed for other qualified plans under § 219(f) of the Code. Section 219(f) was repealed by the Tax Reform Act of 1986, Public Law 99-514.)

14. Is any portion of the distribution attributable to the unpaid portion of an outstanding TSP loan?

No. When a participant transfers his or her account balance to an eligible retirement plan, no part of the amount transferred is attributable to an unpaid portion of an outstanding TSP loan.

15. Does any portion of the distribution represent the cost of life insurance (“P.S. 58 costs”)?

No. The TSP does not permit a participant to purchase life insurance with his or her account balance.

16. Are any amounts in the participant's account attributable to contributions made on behalf of the employee while he or she was a “key employee,” as defined in § 416 of the Code?

No. The TSP is a Government plan, as defined in § 414(d) of the Code. I.R.C. § 401(a)(10)(B)(iii) provides that a Government plan is exempt from the provisions of § 416 of the Code.

17. What is the “total market value” or “fair market value” of a TSP participant’s account?

The “total market value” or “fair market value” is the dollar amount of the distribution from the participant’s TSP account.

18. How can I obtain more information about the taxability of TSP distributions to an eligible retirement plan?

More information on the taxability of TSP distributions is available in the tax notice “Important Tax Information About Payments From Your TSP Account,” which is available from the TSP Web site (www.tsp.gov) or the Board.

If you have any other questions, please contact Merritt A. Willing, Attorney, at (202) 942-1661.